



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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October 4, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe *Maria Oms*
Auditor-Controller

SUBJECT: **DEPARTMENT OF HEALTH SERVICES - RANCHO LOS AMIGOS
NATIONAL REHABILITATION CENTER PROCUREMENT REVIEW**

In 2007, your Board instructed the Auditor-Controller (A-C) to develop a risk-based plan to audit procurement operations at all County departments. In accordance with the developed plan, we completed a review of the Department of Health Services (DHS) Rancho Los Amigos National Rehabilitation Center's (Rancho) compliance with County procurement policies and procedures. Our review covered areas such as purchasing and payment controls, capital and non-capital equipment, and supply warehouses and stockrooms. We also evaluated controls over DHS' Health Materials Management System (HMMS) procurement system.

Summary of Findings

We noted that Rancho's purchases were appropriate and necessary for its operations. However, Rancho management needs to ensure compliance with County purchasing requirements. The following are examples of areas for improvement:

- Rancho needs to ensure that they obtain approved requisitions before ordering goods and services. They also need to ensure that goods and services are received before paying vendors. We reviewed 40 purchases and noted that Rancho placed orders without an approved requisition, could not provide approved requisitions, or did not have the required number of approvals, for seven (18%) purchases, totaling \$46,600. In addition, Rancho did not have

packing slips or documentation indicating that they received goods and services for two (5%) purchases, totaling \$42,800.

DHS Response – DHS indicated they have taken corrective action by restructuring their on-line requisition system and requiring procurement staff to keep approved requisitions on file. In addition, DHS has trained warehouse and accounts payable staff on appropriate methods of documenting the receipt of goods and services.

- Rancho needs to obtain price quotes for non-agreement purchases over \$1,500, and only make sole source purchases that meet sole source criteria. In addition, they should not use vendor agreements to buy non-agreement items. We noted that Rancho did not get price quotes or made inappropriate sole source purchases for five (25%) of 20 non-agreement purchases over \$1,500, totaling \$15,900, and purchased non-agreement items on two (10%) of 20 agreement purchases we reviewed, totaling \$24,700.

DHS Response – DHS indicated they have taken corrective action by training procurement staff on related County purchasing policies.

- Rancho needs to physically inventory their non-capital equipment annually and ensure that their capital and non-capital equipment lists are accurate and complete. Rancho could not locate two (9%) of the 23 non-capital assets we reviewed, and did not update the list when two non-capital assets were either transferred to another County hospital or exchanged. They also could not locate one (6%) of the 18 capital assets we reviewed.

DHS Response – DHS indicated they have taken corrective action by completing a physical inventory of capital equipment and updating the equipment list for missing or obsolete items. DHS is currently working to identify appropriate staff to inventory non-capital equipment.

- Rancho needs to adequately separate procurement and payment processing duties. For the fourteen-month period we reviewed, Rancho made a total of 9,558 vendor payments. Rancho employees processed 2,126 of the payments (22%), totaling \$2.1 million, without appropriate approvals. Rancho employees also completed three or more incompatible HMMS and eCAPS duties (e.g., ordering, receiving, invoice processing, eCAPS final payment approval) for 149 purchases, totaling \$171,000, and completed two incompatible duties for an additional 770 purchases, totaling \$1.7 million.

DHS Response – DHS indicated they have taken corrective action by training staff and appropriately separating the ordering, receiving and invoice processing duties.

- Rancho needs to establish encumbrances when items are ordered. We noted that Rancho ordered items before encumbering funds for three (15%) of the 20 non-agreement purchases we reviewed, totaling \$88,500.

DHS Response – DHS indicated they have taken corrective action by instructing staff to establish encumbrances as soon as order details are available.

Although this report is a review of Rancho's procurement operations, we recommend that other County departments review the findings in this report and ensure that necessary controls are in place.

It should be noted that there are plans to replace HMMS with eCAPS Procurement at all DHS facilities within the next few years. While some of the internal control weaknesses should be corrected with the implementation of eCAPS Procurement, Rancho should proceed with their corrective action plan and implement all the recommendations noted in our review.

The detailed results of our review and recommendations for corrective action are in Attachment 1.

Review of Report

We discussed the results of our review with Rancho management. They agreed with our findings and recommendations and will work to improve controls over their procurement practices. Rancho's detailed response (Attachment 2) describes the corrective actions they have taken, or plan to take, to address the recommendations in our report.

We thank Rancho management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:mwm

Attachments

c: William T Fujioka, Chief Executive Officer
Sheila Shima, Deputy Chief Executive Officer, Health and Mental Health Services
John F. Schunhoff, Ph.D., Interim Director, Department of Health Services
Jorge Orozco, Chief Executive Officer, Rancho Los Amigos National Rehabilitation Center
Tom Tindall, Director, Internal Services Department
All Department Heads
Audit Committee
Public Information Office

**DEPARTMENT OF HEALTH SERVICES
RANCHO LOS AMIGOS NATIONAL REHABILITATION CENTER
PROCUREMENT REVIEW**

Background

Rancho Los Amigos National Rehabilitation Center's (Rancho) Materials Management Section is responsible for ordering goods and services, receiving deliveries, tracking supply inventories, controlling equipment, and disposing of unneeded items. Rancho's fiscal year (FY) 2008-09 services and supplies budget was approximately \$70 million.

Scope of Review

We reviewed Rancho's procurement practices for compliance with County policies and procedures. Our review included interviewing Rancho personnel, evaluating purchasing and payment controls, inventorying a sample of equipment, and observing supply warehouse and stockroom operations. We also evaluated controls over DHS' Health Materials Management System (HMMS) procurement system.

General Purchasing and Payment Controls

The County Fiscal Manual (CFM) requires departments to obtain approved requisitions before ordering goods and services, verify that goods/services were received before paying vendors, and ensure that vendors are paid in a timely manner. We reviewed 40 purchases made between July 2007 and September 2008, totaling approximately \$541,100, and noted the following:

- **Purchase Requisitions** – Rancho placed orders without an approved requisition or could not provide an approved requisition for three (8%) purchases, totaling \$25,100. We also noted that five (13%) requisitions, totaling \$26,000, did not have two approvals, as required by CFM Section 4.4.2.1. Rancho should ensure that staff prepare and at least two managers approve requisitions before purchases are made, and that Materials Management keeps copies of approved requisitions.

We also noted that for three (8%) purchases, totaling \$9,500, Rancho paid \$900 more than the requisition/purchase order price for some of the items. For another purchase, Rancho bought items, totaling \$1,000, that were not on the requisition/purchase order. Rancho management indicated that staff errors and vendor price increases caused these differences. Rancho should ensure that staff annotate actual order costs and quantities on requisitions/purchase orders once they place an order.

- **Verifying goods/services were received** – Materials Management staff are supposed to verify that all items on the vendor packing slip were actually received before payment is made. For services, managers must sign the invoice

and indicate that the services were actually received. Rancho did not have packing slips or documentation that services were received for two (5%) purchases, totaling \$42,800.

- **Invoice Processing** – Departments are required to do a three-way match of requisitions/purchase orders, packing slips and invoices before paying vendors. As previously discussed, Rancho paid vendors without requisitions and packing slips, which indicates that the three-way match is not always being performed. We also reviewed 20 direct purchase orders and noted that Rancho inappropriately paid \$440 in freight costs for one purchase. The purchase order indicated that the vendor was responsible for freight. Rancho should ensure that staff match requisitions/purchase orders, packing slips and invoices before paying vendors.
- **Timeliness of Payments** – CFM Section 4.5.13 requires departments to pay vendors within 30 days of receiving the invoice. We noted that 22 (46%) of the 48 payments we reviewed were paid an average of 46 days late. The late payments were generally due to delays in collecting requisitions/purchase orders and packing slips, and matching them with the invoices. While the late payments did not result in any lost discounts, Rancho should ensure that vendors are paid within 30 days of receiving the invoice.

Recommendations

Rancho management ensure:

1. **Staff prepare, and at least two managers approve, requisitions before purchases are made, staff annotate actual order costs and quantities on requisitions/purchase orders once they place an order, and Materials Management keeps copies of approved requisitions.**
2. **Staff document that they have received goods or services for each purchase before paying vendors.**
3. **Staff match requisitions/purchase orders, packing slips and invoices before paying vendors.**
4. **Vendors are paid within 30 days of receiving the invoice.**

Non-Agreement and Agreement Purchases

Internal Services Department (ISD) establishes agreements with vendors for commonly purchased items through a competitive solicitation process. Thereafter, departments can purchase those items covered by ISD agreements without a transaction limit in most cases, and do not need to obtain price quotes. Departments are not authorized to use these agreements to purchase non-agreement items. ISD also delegates authority

to departments to purchase non-agreement items, up to set limits. Departments may be required to obtain price quotes for non-agreement items based on the amount of the purchase.

ISD has given Rancho delegated authority to purchase non-agreement items under \$5,000. Rancho can make purchases under \$1,500 without price quotes and is required to obtain three price quotes for non-agreement purchases over \$1,500, unless the item is only available from one vendor and cannot be easily substituted (sole source purchases). For purchases over \$5,000, ISD obtains the price quotes, selects a vendor, sets up a direct purchase order and orders the items from the vendor. Rancho should encumber funds when the items are ordered for budgetary purposes. We reviewed Rancho's purchases and noted the following:

- **No price quotes and inappropriate sole source purchases** – Rancho did not obtain the required price quotes for two (10%) of the 20 non-agreement purchases we reviewed, totaling \$4,800. In addition, three (15%) purchases that Rancho identified as sole source, totaling \$11,100, did not meet the requirements for sole source purchases, since the items were available from other vendors. The items purchased included dental implants and patient positioning equipment. Rancho could have potentially purchased the items at a lower cost had they obtained other price quotes.
- **Purchases in excess of Rancho's delegated authority** – Rancho placed orders in excess of their delegated authority, and subsequently asked ISD to establish "confirming" purchase orders for three (15%) of the 20 non-agreement purchases we reviewed, totaling \$88,500. Rancho also ordered these items before encumbering funds. ISD would have purchased the items according to County policy, obtained required price quotes, and may have been able to negotiate better prices given their purchasing experience. In addition, Rancho used the same method to order surgical implants for four (20%) purchases, totaling \$162,400. While ISD cannot order surgical implants before they are used, we noted that Rancho did not request the "confirming" purchase orders until approximately 30 days after receiving the invoices. To ensure encumbrances are established timely, Rancho should request direct purchase orders from ISD as soon as details of the order are available.
- **Inappropriate use of vendor agreements** – Rancho purchased non-agreement items on two (10%) of the 20 agreement purchases we reviewed, totaling \$24,700. The agreements did not include the items purchased. For example, Rancho inappropriately purchased training services under an agreement for computer hardware and software. As a result, price quotes should have been obtained for these purchases and ISD should have purchased the items since they exceeded Rancho's delegated authority.

Recommendations

Rancho management ensure staff:

- 5. Obtain price quotes as required by County purchasing policies and only make sole source purchases that meet sole source criteria.**
- 6. Do not make purchases in excess of Rancho's delegated purchasing authority, and establish encumbrances when items are ordered. When ISD cannot order items for the Hospital prior to use, ensure staff request "confirming" purchase orders as soon as details of the order are available, so encumbrances can be established in a timely manner.**
- 7. Only buy appropriate agreement items when making agreement purchases.**

Health Materials Management System (HMMS)

Rancho and other DHS hospitals use HMMS to process purchases and payments and track inventory. HMMS users enter requisitions/purchase orders, packing slips and invoices into the system. Once the invoice information is entered into HMMS, the system automatically matches the three documents, and then interfaces with the County's enterprise-based accounting and purchasing system (eCAPS) to generate a payment request and an automated first payment approval. The payment request is then sent to an eCAPS user for required additional approvals. CFM Sections 4.1.3 and 4.5.5 require that the ordering, receiving and invoice processing functions be segregated, and at least two separate employees approve payments.

We reviewed employee access in HMMS and eCAPS and noted that Rancho does not adequately separate procurement and payment processing duties. Specifically, three Rancho employees have ordering and/or receiving duties in HMMS, and can enter invoice information into HMMS, and also apply the final eCAPS payment approval. This could allow these employees to place orders and/or enter the receipt of items, and issue payments by themselves. We also noted that six Rancho employees have two incompatible HMMS and eCAPS duties (e.g., ordering, receiving, invoice processing, eCAPS final payment approval). Between July 2007 and August 2008, the same employee processed the invoice in HMMS and applied the final eCAPS payment approval for 2,126 payments (22% of the 9,558 payments made during the period), totaling \$2.1 million. In addition, the same employee completed three or more incompatible HMMS and eCAPS duties for 149 purchases, totaling \$171,000, and completed two incompatible HMMS and eCAPS duties for an additional 770 purchases, totaling \$1.7 million.

While we did not find any inappropriate purchases by these employees, Rancho needs to separate the ordering, receiving and invoice processing duties, and ensure that at least two employees approve all payments. We also noted that Rancho does not have

a HMMS Internal Control Plan, and does not produce and review exception reports to ensure that data interfaced between HMMS and eCAPS is accurate, authorized and complete.

Recommendations

Rancho management:

- 8. Separate the ordering, receiving and invoice processing duties, and ensure at least two employees approve all payments.**
- 9. Work with DHS management to develop a HMMS Internal Control Plan and ensure HMMS/eCAPS interface exception reports are produced and reviewed.**

Capital and Non-Capital Equipment

The CFM requires departments to do a physical inventory of their capital equipment (assets costing more than \$5,000 with a useful life of more than one year) every two years, and their non-capital equipment (items that can be easily carried or moved) every year. Departments are also supposed to place tags on their capital and non-capital equipment, and assign responsibility for equipment to specific individuals.

As of September 2008, Rancho's capital equipment had a total acquisition cost of approximately \$14 million. We could not determine the cost of Rancho's non-capital equipment since their records do not indicate the cost of most of the items. Rancho does not inventory its non-capital equipment annually and does not have a master list of non-capital equipment. Rancho's Biomed section tracks direct patient care equipment, Information Management Systems (IMS) section tracks information technology equipment, and Materials Management section tracks all other equipment. However, responsibility for equipment is not clearly defined since some of the same items appear on different equipment lists. We also noted that Rancho does not tag all of its capital and non-capital equipment. Rancho also does not always assign responsibility for capital and non-capital equipment to specific individuals, and some of the assigned individuals do not keep accurate lists of the equipment assigned to them.

Furthermore, Rancho's capital and non-capital equipment lists were not accurate. We inventoried 18 capital assets and 23 non-capital assets from Rancho's equipment lists, and noted that they could not locate one (6%) capital asset and two (9%) non-capital assets, totaling \$10,600 and \$2,500, respectively. Rancho could not determine the reason the assets were missing. We also noted that they should have disposed of one (6%) obsolete capital asset by selling it, transferring it to another County hospital or retiring the asset according to established County policy. In addition, Rancho did not remove a non-capital asset from the list when it was transferred to another County hospital, and did not update the list when they returned a non-capital asset to the vendor in exchange for another asset.

We also reviewed IMS' information technology non-capital equipment list and noted that, with the exception of laptops, the list does not have adequate information (e.g., tag number, location, serial number, etc.) to specifically identify equipment. In addition, Rancho indicated that 15 (9%) of the 169 laptops on the list were missing. Rancho could not locate four laptops, employees left the Hospital without returning six laptops and five laptops were stolen. However, Rancho could not provide documentation indicating the efforts they made to retrieve the laptops (e.g., police reports, etc.). We attempted to locate 14 laptops that were not identified as missing on the equipment list, and could not locate two (14%). Rancho could not determine the reason one laptop was missing, and indicated that the other laptop was salvaged, but could not provide documentation to support their claim.

Recommendations

Rancho management:

- 10. Immediately complete a physical inventory of all equipment to identify missing or obsolete items, inventory non-capital equipment annually, and evaluate the feasibility of centralizing responsibility for non-capital equipment with Materials Management.**
- 11. Attach tags to capital and non-capital equipment when received.**
- 12. Assign responsibility for all capital and non-capital equipment to specific individuals and require them to keep an accurate list of the equipment assigned to them.**
- 13. Dispose of obsolete capital and non-capital equipment by selling the assets, transferring the assets to other County hospitals, or retiring the assets according to established policy, and update the equipment lists when assets are disposed.**
- 14. Revise the non-capital equipment list by including adequate information to specifically identify equipment.**
- 15. Investigate and take appropriate action to retrieve the missing laptops and any other missing equipment in the future, and ensure that equipment losses are reported in accordance with County guidelines.**

Warehousing/Inventory

Rancho has two supply warehouses with inventory totaling approximately \$300,000, as of September 2008. Rancho's Operating Room (OR) also has several supply storage rooms. County departments should ensure that access to supplies is restricted to authorized employees. We noted that while Rancho's OR entrances are secure, an adjacent storage room is unlocked and accessible from public areas of the Facility. In

addition, the storage room has an unlocked door which leads directly into the OR where additional supplies and unsecured storage rooms are located. Rancho indicated that they will install a key coded lock on the entrance to the storage room.

We also did a physical inventory of supplies and noted that Rancho's perpetual inventory records were generally accurate. In addition, Rancho does an annual physical inventory of supplies and monitors supply inventory for slow moving, obsolete and overstocked items, as required by the CFM.

Recommendation

- 16. Rancho management ensure warehouses and stockrooms are adequately secured.**

Internal Control Certification Program

The Auditor-Controller developed the Internal Control Certification Program (ICCP) to assist County departments in evaluating and improving internal controls over fiscal operations. Departments must review and evaluate controls in key fiscal areas and certify that proper controls are in place or that action is being taken to correct any deficiencies or weaknesses noted.

Many of the issues we noted in Rancho's procurement operations should have been identified when Rancho completed the ICCP for FY 2006-07. With the exception of non-capital equipment, Rancho's certification did not identify any procurement control weaknesses. In addition, Rancho has not implemented proposed improvement plans for some of the non-capital equipment weaknesses they identified. Rancho management should ensure that the ICCP questionnaires are accurately completed, all internal control weaknesses are identified, improvement plans are developed to address weaknesses and improvement plans are implemented in a timely manner.

Recommendation

- 17. Rancho management ensure the ICCP questionnaires are accurately completed, all internal control weaknesses are identified, improvement plans are developed to address weaknesses and improvement plans are implemented in a timely manner.**



Health Services
LOS ANGELES COUNTY

June 24, 2010

**Los Angeles County
Board of Supervisors**

Gloria Molina
First District

Mark Ridley-Thomas
Second District

Zev Yaroslavsky
Third District

Don Knabe
Fourth District

Michael D. Antonovich
Fifth District

TO: Wendy L. Watanabe
Auditor-Controller

FROM: *JF* John F. Schunhoff, Ph.D. *Paul Meyer*
Interim Director

SUBJECT: **DEPARTMENT OF HEALTH SERVICES –
RANCHO LOS AMIGOS NATIONAL
REHABILITATION CENTER (RANCHO)
PROCUREMENT REVIEW**

John F. Schunhoff, Ph.D.
Interim Director

Gail V. Anderson, Jr., M.D.
Interim Chief Medical Director

Attached is the Department of Health Services (Department) response to the recommendations contained in the Auditor-Controller Audit Division's March 1, 2010 Procurement review at Rancho. We concur with the recommendations made in the report and have initiated corrective actions to address the recommendations.

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If you have any questions or require additional information, please let me know or you may contact Sharon Ryzak at (213) 240-7901.

JFS:eg

Attachment

*To improve health
through leadership,
service and education*

c: Jorge Orozco
Gregory Polk
Sharon Ryzak



www.dhs.lacounty.gov

COUNTY OF LOS ANGELES – DEPARTMENT OF HEALTH SERVICES

**RESPONSE TO AUDITOR-CONTROLLER PROCUREMENT REVIEW –
RANCHO LOS AMIGOS NATIONAL REHABILITATION CENTER**

AUDITOR-CONTROLLER RECOMMENDATION #1

Rancho management ensure staff prepare and at least two managers approve requisitions before purchases are made, staff annotate actual order costs and quantities on requisitions/purchase orders once they place an order, and Materials Management keeps copies of approved requisitions.

DHS response:

We agree. The On-Line Requisition system (OLR) was restructured to meet the recommendation of at least two manager approvals prior to purchasing. Procurement staff was provided training from June through October 2009 to annotate actual order costs and quantities on electronic requisitions/purchase orders once they place an order and maintain an electronic and a paper copy of approved requisitions on file.

AUDITOR-CONTROLLER RECOMMENDATION #2

Rancho management ensure staff document that they have received goods or services for each purchase before paying vendors.

DHS response:

We agree. Warehouse and Accounts Payable staff was provided training from June through October 2009 to document receipt of goods or obtain appropriate signature from the requesting department for services rendered, prior to paying the vendors. In the case of items received without an original packing slip, warehouse/receiving staff will generate a substitute packing slip to document item description, quantity, date, receiver, requestor, and will include the signature of the receiving staff.

AUDITOR-CONTROLLER RECOMMENDATION #3

Rancho management ensure staff match requisitions/purchase orders, packing slips and invoices before paying vendors.

DHS response:

We agree. Accounts Payable staff was provided training from June through October 2009 to obtain a three-way match consisting of requisition/purchase orders, packing slips and invoices before paying vendors and will attach documents to the payment package.

AUDITOR-CONTROLLER RECOMMENDATION #4

Rancho management ensure vendors are paid within 30 days of receiving the invoice.

DHS response:

We agree. Accounts Payable staff pulls and reviews the "Open Packing Slip and Open Invoice Report" from COGNOS every Monday to monitor for approaching due dates. Vendors have been instructed to send all invoices directly to Accounts Payable. From June through October 2009, departments were provided training to review, reconcile, approve and immediately forward invoices sent to them to Accounts Payable for payment processing.

AUDITOR-CONTROLLER RECOMMENDATION #5

Rancho management ensure staff obtain price quotes as required by County purchasing policies and only make sole source purchases that meet sole source criteria.

DHS response:

We agree. In August 2009, Procurement staff was provided training to obtain price quotes as required by County purchasing policies and only make sole source purchases that meet sole source criteria. Training consisted of ISD/Purchasing policies as follows:

- ISD Purchase Standard Policy # 989-6, effective May 2002, Department Instructions For Non-Agreement Various Vendors Blanket Purchase Order
- ISD Purchase Standard Policy # 1002, effective March 2003, Department Instructions For Non-Agreement Various Vendors Blanket Purchase Order
- ISD Sole Source Purchases Policy # P-3700, effective January 1, 2005.

AUDITOR-CONTROLLER RECOMMENDATION #6

Rancho management ensure staff do not make purchases in excess of Rancho's delegated purchasing authority, and establish encumbrances when items are ordered. When ISD cannot order items for the Hospital prior to use, ensure staff request direct purchase orders as soon as details of the order are available, so encumbrances can be established in a timely manner.

DHS response:

We agree. From June through October 2009, Warehouse, Procurement, and Accounts Payable staff were provided training regarding Rancho's delegated purchasing authority. When an ISD/Purchasing purchase order has not been issued prior to use, encumbrances are requested and a request for direct purchase order is submitted to ISD/Purchasing as soon as the details of the order are available.

AUDITOR-CONTROLLER RECOMMENDATION #7

Rancho management ensure staff only buy appropriate agreement items when making agreement purchases.

DHS response:

We agree. In August 2009, Procurement and Accounts Payable staff were provided training in ISD/Purchasing policies to ensure that only appropriate agreement items were selected when making agreement purchases. Training consisted of ISD/Purchasing policies as follows:

- Purchase Standard Policy # 988-6, effective May 2002, Department Instructions For Agreement Various Vendors Blanket Purchase Order
- Purchase Standard Policy # 1003, Revised December 2005, Department Instructions For Agreement And Vendor Specified Blanket Purchase Orders.

AUDITOR-CONTROLLER RECOMMENDATION #8

Rancho management separate the ordering, receiving and invoice processing duties, and ensure at least two employees approve all payments.

DHS response:

We agree. Procurement, Warehouse, and Accounts Payable staff were provided training from June through October 2009 and the ordering, receiving, and invoice processing duties have been separated and at least two different employees apply the approvals to all Payment Vouchers prior to payment.

AUDITOR-CONTROLLER RECOMMENDATION #9

Rancho management work with Department of Health Services management to develop a Health Materials Management System (HMMS) Internal Control Plan and ensure HMMS/Countywide online Accounting and Purchasing System (eCAPS) interface exception reports are produced and reviewed.

DHS response:

We agree. Rancho management will work with ISD HMMS System Programmers and DHS Materials Management to develop the Internal Control Plan consistent with DHS Policy and will identify staff who will be responsible for reviewing the interface exception report.

AUDITOR-CONTROLLER RECOMMENDATION #10

Rancho management immediately complete a physical inventory of all equipment to identify missing or obsolete items, inventory non-capital equipment annually, and evaluate the feasibility of centralizing responsibility for non-capital equipment with Material Management.

DHS response:

We agree. In March 2010, a physical inventory of capital equipment was completed and equipment lists were updated for missing or obsolete items identified during the inventory. Rancho management will work on a plan to identify dedicated staff to inventory and centralize the responsibility for non-capital equipment.

AUDITOR-CONTROLLER RECOMMENDATION #11

Rancho management attach tags to capital and non-capital equipment when received.

DHS response:

We agree. From June through October 2009, Warehouse staff was provided training and currently attach tags to capital and non-capital equipment when received.

AUDITOR-CONTROLLER RECOMMENDATION #12

Rancho management assign responsibility for all capital and non-capital equipment to specific individuals and require them to keep an accurate list of the equipment assigned to them.

DHS response:

We agree. All facility department heads have been designated as the unit custodians and were instructed beginning in January 2010 during monthly Executive Committee Meetings to maintain accurate lists, monitor all capital and non-capital equipment assigned to them, and to work with Materials Management for disposal, relocations, and trade-in of equipment. Materials Management staff is in the process of providing an accurate list of capital equipment for each unit. Rancho management is working to identify staff who will perform inventory on non-capital equipment in order to provide an updated list for each unit.

AUDITOR-CONTROLLER RECOMMENDATION #13

Rancho management dispose of obsolete capital and non-capital equipment by selling the assets, transferring the assets to other County hospitals, or retiring the assets according to established policy, and update the equipment lists when assets are disposed.

DHS response:

We agree. In January 2009, Warehouse and Procurement staff were re-trained on County Fiscal Manual 6.10.0 Sales, Transfer and Retirement of Capital Equipment and 6.10.3 Equipment Sold, Traded-In, Transferred, Stolen, or Disposed and staff participate as members of the Los Angeles County Surplus Committee. The Committee has established Countywide policies and procedures that address the correct disposition of equipment, such as selling assets, transferring to other County hospitals, and retiring assets. The equipment lists were updated for obsolete and missing items identified during the March 2010 inventory. Both capital and non-capital equipment lists are updated when assets are disposed.

AUDITOR-CONTROLLER RECOMMENDATION #14

Rancho management revise the non-capital equipment list by including adequate information to specifically identify equipment.

DHS response:

We agree. Warehouse and Procurement staff were provided training in October 2009 to input detailed descriptive information to specifically identify non-capital equipment when entering data into the internal Fixed Assets tracking system.

AUDITOR-CONTROLLER RECOMMENDATION #15

Rancho management investigate and take appropriate action to retrieve the missing laptops and any other missing equipment in the future, and ensure that equipment losses are reported in accordance with County guidelines.

DHS response:

We agree. Information Management Systems section (IMS) continues to investigate and will take appropriate action related to the missing laptops. IMS will review and update the current laptop inventory list to maintain accuracy of the existing inventory and will modify the laptop inventory procedures to correct any issues. In January 2010, Procurement and Warehouse staff were provided training in County Fiscal Manual 6.9.2 to ensure that equipment losses are reported in accordance with County guidelines.

AUDITOR-CONTROLLER RECOMMENDATION #16

Rancho management ensure warehouses and stockrooms are adequately secured.

DHS response:

We agree. In April 2009, a lock was installed on the door of the storage room area within the Operating Room unit. In April 2009, keypad or key locks were installed in warehouses and stockrooms, which are secured at all times. This issue was discussed with Materials Management staff from June through October 2009.

AUDITOR-CONTROLLER RECOMMENDATION #17

Rancho management ensure the Internal Control Certification Program (ICCP) questionnaires are accurately completed, all internal control weaknesses are identified, improvement plans are developed to address weaknesses and improvement plans are implemented in a timely manner.

DHS response:

We agree. Rancho Management will ensure that ICCP questionnaires are accurately completed and identify all internal control weaknesses. Staff are provided training annually when the ICCP is due to develop improvement plans when weaknesses are identified and collaborative efforts are made to implement corrective measures in a timely manner. Warehouse, Procurement, and Accounts Payable staff meet to review the ICCP documents and the responses are sent to Finance for additional review.